EAST KENTUCKY POWER COOPERATIVE

February 13, 2003

HAND DELIVERED

RECEIVED

FEB 13 2003

PUBLIC SERVICE COMMISSION

Mr. Thomas M. Dorman
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

Re: Case No. 2003-00030

Dear Mr. Dorman:

Please find enclosed for filing with the Commission in the above-referenced case an original and ten redacted copies of the responses of East Kentucky Power Cooperative, Inc., to the Commission's information requests dated January 30, 2003, and a Petition for Confidential Treatment of Information relating to certain of those responses.

Very truly yours,

Charles A. Lile

Charles A. Lile
Senior Corporate Counsel

Enclosures

Cc: Parties of Record

4775 Lexington Road 40391
P.O. Box 707, Winchester,
Kentucky 40392-0707

Tel. (859) 744-4812
Fax: (859) 744-6008
http://www.ekpc.com

A Touchstone Energy Cooperative

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF EAST KENTUCKY POWER COOPERATIVE, INC.'S NEED FOR THE GILBERT UNIT AND THE KENTUCKY PIONEER ENERGY, LLC PURCHASE POWER AGREEMENT	)))))	CASE NO. 2003-00030

PETITION FOR CONFIDENTIAL TREATMENT OF INFORMATION

Comes now East Kentucky Power Cooperative, Inc., hereinafter referred to as "EKPC", and petitions the Public Service Commission, hereinafter referred to as the "Commission", pursuant to 807 KAR 5:001 Section 7 and KRS §61.878 and related statutes, for confidential treatment of certain designated information contained in its responses to the Commission's information requests contained in Appendix C to the order in this case dated January 30, 2003. As grounds for the Petition, EKPC hereby states as follows:

1. EKPC has identified certain confidential information in the power sale agreement between EKPC and Wabash Valley Power Association, Inc. ("WVPA"), which is provided in response to Question 11. The pricing information in that agreement reflects confidential negotiations between EKPC and WVPA regarding the potential sale of surplus energy from the Kentucky Pioneer Energy ("KPE") Project. Disclosure of this information to EKPC competitors in the wholesale energy market would provide an unfair competitive advantage to such competitors which could hurt EKPC's efforts to market other surplus KPE energy, should the KPE Project be completed. Knowledge of such pricing information by potential purchasers of such surplus energy could result in less than competitive purchase offers, and knowledge of this

information by other potential power sellers could allow manipulation of the market through competing offers to sell.

2. EKPC has also designated the technical assessment of the KPE Project, provided in response to Question 13, as confidential and proprietary information. This assessment was commissioned by EKPC to evaluate technical issues relating to the KPE Project and it deals with many critical aspects of the facilities planned by KPE. Knowledge of such information by EKPC competitors in the wholesale power market could provide a basis for estimating costs of power production from the KPE Project. Estimates of the cost of KPE energy could allow potential purchasers of surplus energy to unfairly manipulate offers to purchase, and could provide competing wholesale power sellers with an unfair advantage in making competing offers to sell.

3. 807 KAR 5:001 Section 7 authorizes confidential treatment of information submitted to the Commission based on grounds provided in KRS §61.870, *et seq*. EKPC asserts that the information identified in the abovementioned responses constitutes records generally recognized as proprietary and confidential which, if made public, would permit an unfair commercial advantage to competitors of EKPC. As such, this information should be granted confidential treatment pursuant to KRS §61.878 (1)(c)(1).

4. EKPC also believes that all of the identified confidential information is protected from public disclosure pursuant to KRS §61.878 (1)(c)(2)(c) as confidential and proprietary records disclosed to the Commission in conjunction with its regulation of commercial enterprise, apart from any unfair commercial advantage public disclosure would provide to EKPC competitors.

5. All of the identified confidential information is treated as confidential and proprietary by EKPC. The technical assessment has been provided to KPE on a confidential basis, and the terms of the power sale agreement are known to WVPA and the Rural Utilities Service.

Otherwise, this information is not known outside EKPC, except for consultants using or producing the information on a confidential basis, and it is distributed within EKPC only to those with a need to know or use it for EKPC business purposes.

6. An original copy of EKPC's responses to Questions 11 and 13 in this case is enclosed, which includes confidential information highlighted or otherwise indicated. Ten copies of the complete responses, with confidential information redacted, are also enclosed.

WHEREFORE, Applicant respectfully requests the Commission to grant confidential treatment to the identified information, and deny public disclosure of the information pursuant to 807 KAR 5:001 Section 7.

Respectfully submitted,

DALE W. HENLEY

CHARLES A. LILE

ATTORNEYS FOR EAST KENTUCKY
POWER COOPERATIVE, INC.
P. O. BOX 707
WINCHESTER, KY 40392-0707
(859) 744-4812

CERTIFICATE OF SERVICE

This is to certify that an original and ten copies of the foregoing Petition For Confidential Treatment of Information in the above-referenced case were delivered to Thomas Dorman, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; and copies were mailed to Elizabeth E. Blackford, Esq., Office of Attorney General, 1024 Capital Center Drive, Frankfort, Kentucky 40601, and to Joseph A. Bickett, Esq., Ogden, Newell and Welch, 1700 PNC Plaza, 500 West Jefferson Street, Louisville, Kentucky 40202-2874, on February 13, 2003.

Charles A. Lile

CHARLES A. LILE

(030Conf)

EAST KENTUCKY POWER COOPERATIVE

February 13, 2003

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Executive Director
Public Service Commission
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FEB 2003

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A Touchstone Energy Cooperative

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF EAST KENTUCKY POWER COOPERATIVE, INC.'S NEED FOR THE GILBERT UNIT AND THE KENTUCKY PIONEER ENERGY, LLC PURCHASE POWER AGREEMENT	)))))	**CASE NO. 2003-00030**

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WHEREFORE, Applicant respectfully requests the Commission to grant confidential treatment to the identified information, and deny public disclosure of the information pursuant to 807 KAR 5:001 Section 7.

Respectfully submitted,

Dale Henley

DALE W. HENLEY

Charles A. Lile

CHARLES A. LILE

ATTORNEYS FOR EAST KENTUCKY
POWER COOPERATIVE, INC.
P. O. BOX 707
WINCHESTER, KY 40392-0707
(859) 744-4812

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Charles A. Lile

CHARLES A. LILE

(030Conf)

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF EAST KENTUCKY POWER COOPERATIVE, INC.'S NEED FOR THE GILBERT UNIT AND THE KENTUCKY PIONEER ENERGY, LLC PURCHASE POWER AGREEMENT	) CASE NO. 2003-00030

RESPONSES OF EAST KENTUCKY POWER COOPERATIVE, INC.
TO COMMISSION STAFF REQUESTS DATED JANUARY 30, 2003

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF EAST KENTUCKY POWER COOPERATIVE, INC.'S NEED FOR THE GILBERT UNIT AND THE KENTUCKY PIONEER ENERGY, LLC PURCHASE POWER AGREEMENT	)	CASE NO. 2003-00030

<u>O R D E R</u>

By Order entered January 11, 2000 in Case No. 2000-00079,[1] the Commission approved East Kentucky Power Cooperative, Inc.'s ("East Kentucky") proposal to purchase 540 MW of base load generation from Kentucky Pioneer Energy, LLC ("Pioneer"). Under the terms of the Purchase Power Agreement ("Agreement"), Pioneer is to construct an integrated gasification combined cycle power plant within the boundary of East Kentucky's existing J.K. Smith Plant in Trapp, Clark County, Kentucky. The Pioneer plant will generate electricity through a process that converts coal and municipal solid waste into gas. East Kentucky agreed to purchase the entire output of the Pioneer project for an initial term of 20 years, with the right to extend for two successive 10-year periods. Due to certain operational problems that would be created on East Kentucky's system with the addition of 540 MW of base load generation at this

[1] Case No. 2000-00079, The Application of East Kentucky Power Cooperative, Inc. For Approval of a Purchase Power Agreement with Kentucky Pioneer Energy, L.L.C.

site, East Kentucky entered into a separate agreement to sell 100 MW from the Pioneer project to Wabash Valley Power, an electric cooperative in Indiana.

The Agreement as amended required Pioneer to achieve certain milestone dates, including financial closure by June 30, 2001 and commercial operation by March 31, 2004. The Pioneer project has not been able to achieve financing, and by letter dated August 16, 2002, East Kentucky issued a notice of termination of the Agreement. East Kentucky subsequently withdrew that notice of termination by letter dated September 13, 2002, but stated therein that a notice of termination would be re-issued on January 31, 2003 if the Pioneer project had not achieved financial closure by that date. Copies of these two letters from East Kentucky are attached hereto as Appendices A and B.

In recognition of East Kentucky's need for additional base load capacity to meet its customers' needs, as well as the delays in the Pioneer project achieving financial closure, East Kentucky proposed an alternative supply-side project. In March 2001, East Kentucky filed an application for a Certificate of Public Convenience and Necessity to construct a coal-fired generating unit at its Hugh L. Spurlock Power Station in Mason County, Kentucky. After review and investigation in Case No. 2001-00053,[2] the Commission granted East Kentucky a certificate to construct a 268 MW coal-fired base load unit known as Gilbert.

[2] Case No. 2001-00053, Application of East Kentucky Power Cooperative, Inc. For a Certificate of Public Convenience and Necessity, and a Certificate of Environmental Compatibility, For the Construction of a 250 MW Coal-Fired Generating Unit (With A Circulating Fluid Bed Boiler) at the Hugh L. Spurlock Power Station and Related Transmission Facilities, Located in Mason County, Kentucky, to be Constructed Only in the Event That the Kentucky Pioneer Energy Power Purchase Agreement Is Terminated.

The Commission's Certificate Order, dated September 26, 2001, recognized that the Gilbert unit was needed because of the delays in the Pioneer project. Although East Kentucky was at that time reluctant to terminate the Pioneer project due to its relatively low cost, East Kentucky acknowledged that constructing the Gilbert unit and proceeding with the Pioneer project would result in excess capacity that would not be needed for a substantial period of time. However, East Kentucky expressed confidence that such excess capacity could be sold off-system at competitive prices.[3] The evidence in that case also suggested that if the Pioneer project could obtain financing, it might be less costly for East Kentucky's customers to cancel the Gilbert unit if canceled prior to incurring 25 percent of its total costs. At that time, East Kentucky anticipated that it would incur 25 percent of the costs of the Gilbert unit by January 2003.[4]

The Commission has reviewed the records of Case Nos. 2000-00079 and 2001-00053, as well as the East Kentucky letters appended hereto. Based on East Kentucky's decision to withdraw its notice of termination of the Pioneer project as evidenced by its September 13, 2002 letter, the Commission finds that an investigation should be initiated to determine whether East Kentucky still has a need to purchase the output of the Pioneer project, whether that project is commercially feasible, and whether cancellation of the Gilbert unit would result in the lowest cost of supply to East Kentucky's customers. In addition, the Commission notes that East Kentucky's September 13, 2002 letter references a recently performed technical assessment of the Pioneer project for East Kentucky. The Commission finds that East Kentucky should file

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[3] Case No. 2001-00053, East Kentucky Brief at 16.

[4] Id. at 12.

copies of this technical assessment and that such assessment should be subjected to review in this investigation. The Commission further finds that East Kentucky should file responses to the request for information set forth in Appendix C to this Order, and that copies of this Order should be served upon the Attorney General's Office and Pioneer, intervenors in the above-referenced cases.

IT IS THEREFORE ORDERED that:

1. This case is initiated to conduct an investigation of the issues set forth in the findings above, as well as any other issues relevant to East Kentucky's continuing need for the Gilbert unit and the Pioneer project.

2. East Kentucky shall file with the Commission an original and six copies of its responses to the request for information set forth in Appendix C, attached hereto and incorporated herein by reference, within 14 days of the date of this Order, with copies to all parties of record. All requests for information and responses thereto shall be appropriately indexed. All responses shall include the name of the witness who will be responsible for responding to the questions related to the information provided.

3. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

Done at Frankfort, Kentucky, this 30th day of January, 2003.

By the Commission

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2003-00030 DATED JANUARY 30, 2003

EAST KENTUCKY POWER COOPERATIVE

RECEIVED

AUG 2 3 2002

PUBLIC SERVICE COMMISSION

August 21, 2002

Mr. Thomas Dorman
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

Re: PSC Case No. 2000-079

Dear Mr. Dorman:

Please find enclosed for filing with the Commission in the above-referenced case a copy of the notice sent by East Kentucky Power Cooperative, Inc. on August 16, 2002 to Kentucky Pioneer Energy, L.L.C. ("KPE") to terminate the Power Purchase Agreement between the parties. Under the provisions of Section 9.4 of that Agreement, KPE has 60 days to attempt to secure financing for the project, or the Agreement will terminate.

Very truly yours,

Charles A. Lile
Senior Corporate Counsel

cal/ln
enclosures
c: Parties of Record

Copies to: Dave Drake
Dave Eames

EAST KENTUCKY POWER COOPERATIVE

LEGAL FILE

CERTIFIED MAIL

August 16, 2002

Mr. Harry Graves
President & CEO
Kentucky Pioneer Energy L.L.C.
312 Walnut Street, Suite 2000
Cincinnati, OH 45202

Subject: Notice of Termination of Power Purchase Agreement dated January 14, 1999, as amended

Dear Harry:

At its August 13, 2002 meeting, the East Kentucky Power Cooperative, Inc. ("East Kentucky Power") Board of Directors authorized me to issue a notice of termination of the Power Purchase Agreement between East Kentucky Power and Kentucky Pioneer Energy L.L.C. ("KPE") dated January 14, 1999, (the "Agreement") due to the failure of KPE to obtain financing for the capital requirements of the proposed IGCC project by or after the amended deadline of June 30, 2001. This letter is notice of such termination, as provided under Section 9.4 of said Agreement.

I regret that KPE has been unable to bring this IGCC project to fruition as anticipated in the Agreement. If KPE is able to obtain financing for your project capital requirements within the notice period provided in Section 9.4 of the Agreement, East Kentucky Power Cooperative remains prepared to move forward with the projects. I will appreciate being advised of your plans and progress during the sixty-day termination notice window. If termination is the ultimate outcome and you desire to make a joint announcement, please let Dave Drake or me know and we will attempt to develop an announcement to the satisfaction of both parties.

I wish you well with your other ventures. East Kentucky Power strongly believes in the deployment of advanced coal-based technologies. We further believe that gasification holds great promise for electric utilities.

Thank you for your efforts on our behalf.

Sincerely,

Roy M. Palk
President and Chief Executive Officer

rmp/ln
c: Kenneth C.H. Willig, Esq., Piper & Marbury, L.L.P.
Administrator, RUS

F:\LEGAL\WORD2\rmp-graves.doc

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2003-00030 DATED JANUARY 30, 2003

EAST KENTUCKY POWER COOPERATIVE

RECEIVED
KENTUCKY STATE BOARD ON
SEP 1 8 2002
ELECTRIC GENERATION AND TRANSMISSION SITING

September 13, 2002

Mr. Harry Graves
Project Director
Kentucky Pioneer Energy, L.L.C.
312 Walnut Street, Ste. 2000
Cincinnati, OH 45202

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Case No. 2002-00312

Dear Harry:

I have reviewed your letter received by telefax on August 28, 2002, and have investigated your statement that Kentucky Pioneer Energy, L.L.C. ("KPE") has not received the notice of termination of the Power Purchase Agreement ("PPA") which East Kentucky Power Cooperative, Inc. ("EKPC") sent on August 16, 2001. It appears possible that, even though arrangements were made to send the notice by certified mail, it was not in fact sent in that manner. If you did not receive the notice, I have enclosed a copy for your reference.

Your letter states several reasons why KPE would consider a notice to terminate the PPA to be inappropriate and premature. We feel that it is necessary to clarify our position on our rights to give such notice to KPE.

Your first assertion, that EKPC cannot give notice of termination pursuant to Section 9.4 of the PPA unless KPE has declared that it is unable to obtain financing for the project, is unsupported by the clear language of that section. Section 9.4 allows either party to the PPA to give notice of termination at any time after the amended financing deadline of June 30, 2001, if KPE did not obtain financing for the project by that date. KPE failed to obtain such financing by that date, and Section 9.4 does not require KPE to declare that fact before the notice of termination can be given by EKPC.

I am somewhat puzzled by your second assertion, and assume that you are referring to Section 9.3 of the PPA rather than Section 9.7, which you cite. If this is correct, EKPC wants to point out that Section 9.3 is an option to terminate the PPA due to the failure of KPE to meet the Commercial Operation date. This option is totally separate from the option provided in Section 9.4, relating to KPE's failure to obtain financing for the project, and has distinct language which allows an extension of the option commencement date of up to twelve months, if delay in Commercial Operation results from force majeure. EKPC's notice of termination was pursuant to Section 9.4, which does not contain any language which extends the option commencement date due to force

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majeure delays. Section 9.3 is in no way relevant to EKPC's right to give a notice of termination pursuant to Section 9.4.

Your last item states that KPE has been slowing the progress of the project in the last year at EKPC's request, and characterizes EKPC's notice of termination as a directive to reverse this course and accelerate the schedule. Let there be no confusion that it is not EKPC's intent to direct KPE to take any actions to change its plans for the project. Furthermore, EKPC disagrees with the suggestion that KPE has slowed the progress of the project at EKPC's request.

Since KPE failed to meet its amended financial closure date of June 30, 2001, it has represented to EKPC that it could not move the project forward on the terms contained in the PPA. Because KPE could not meet its contract obligations, EKPC initiated the construction of the Gilbert Unit and took other steps to satisfy its needs for power supply that EKPC had hoped the KPE project would provide. These steps significantly changed the mix and timing of EKPC's power supply plan. While EKPC continued to discuss and consider various alternative project proposals offered by KPE, we have never been told by KPE that it has found a way to proceed with the project on the existing terms approved by the Kentucky Public Service Commission. The technical assessment recently performed by Ari Geertsema, and KPE's continuing inability to meet its contract obligations, have caused EKPC to conclude that any further discussions of changes to the PPA terms would not be in the best interests of the cooperative and its member systems.

While EKPC does not agree with your letter's contention that the PPA provides KPE with any entitlement to a time extension due to new governmental approval requirements, we have decided to withdraw the notice of termination at this time, so that KPE will have an opportunity to complete its proceedings before the Kentucky Electric Generation and Transmission Siting Board (the "Siting Board"), which we understand were commenced on August 26, 2002, and to seek to achieve financial closure on the existing terms of the PPA. However, EKPC is not directing KPE to take any efforts to secure needed approvals or financing on the basis of project terms which vary from the terms of the PPA, nor is it directing KPE to take any action to accelerate the project in any manner. This withdrawal of EKPC's August 16, 2002 notice shall in no way be considered a waiver by EKPC of its option under Section 9.4 to terminate the PPA.

EKPC wishes to clearly state its intent to re-issue a notice of termination, pursuant to Section 9.4 of the PPA, on January 31, 2003, unless KPE achieves financial closure, on the existing terms of the PPA, on or before that date. This allows KPE approximately five months to complete the Siting Board's review within the time limits prescribed by law. EKPC regrets any confusion about the delivery of the first notice, and assures KPE that any discussions of this termination decision with other parties were confined to governmental and business entities with close ties to the project which had a need to know that the notice had been given. These communications were made on the good faith assumption that KPE had in fact received the notice, and EKPC does not consider such communications premature. EKPC will advise those parties of the withdrawal of the original termination notice and its plans as detailed herein.

EKPC wishes to express its appreciation for the efforts of KPE to date, and recognizes that KPE has an opportunity to go forward with the project on the existing terms of the PPA if proper financing is obtained before the end of such future termination notice period. EKPC desires to maintain a good working relationship with KPE and intends to continue to abide by all requirements of the PPA in good faith. If you wish to discuss this letter or any other aspect of EKPC's decision to terminate the PPA, please feel free to contact me.

Sincerely,

Roy M. Palk

Roy M. Palk

Cc: Michael Musulin, President, Kentucky Pioneer Energy- CERTIFIED MAIL
Kenneth C. H. Willig, Esq., Piper & Marbury, L.L.P.
Administrator, RUS
Kentucky Public Service Commission

EAST KENTUCKY POWER COOPERATIVE

CERTIFIED MAIL

August 16, 2002

Mr. Harry Graves
President & CEO
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I regret that KPE has been unable to bring this IGCC project to fruition as anticipated in the Agreement. If KPE is able to obtain financing for your project capital requirements within the notice period provided in Section 9.4 of the Agreement, East Kentucky Power Cooperative remains prepared to move forward with the projects. I will appreciate being advised of your plans and progress during the sixty-day termination notice window. If termination is the ultimate outcome and you desire to make a joint announcement, please let Dave Drake or me know and we will attempt to develop an announcement to the satisfaction of both parties.

I wish you well with your other ventures. East Kentucky Power strongly believes in the deployment of advanced coal-based technologies. We further believe that gasification holds great promise for electric utilities.

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President and Chief Executive Officer

rmp/ln

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APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2003-00030 DATED JANUARY 30, 2003

1. What is the present estimated total cost for the Gilbert unit?

2. How much of the total estimated cost of the Gilbert unit has been incurred to date?

3. Assuming that the Pioneer project is able to achieve financing by January 31, 2003 or shortly thereafter, is East Kentucky aware of any information that would indicate that Pioneer will be unable to supply power at the price set forth in the Purchase Power Agreement approved in Case No. 2000-00079? If so, provide such information, together with all supporting documents.

4. Provide a cost analysis of cancelling Gilbert by February 28, 2003, and relying upon the Pioneer project supplemented by combustion turbines as necessary.

5. Explain in detail the current status of the transmission facilities needed to integrate the Gilbert unit into East Kentucky's system.

6. For each major component of the Gilbert transmission facilities, state the most recent estimated cost and provide a timeline for construction.

7. Assuming that the Gilbert unit and the Pioneer project are both operational by mid-2006, provide a schedule showing the amount of excess base load capacity that East Kentucky will have to sell off-system in 2007 and in each year thereafter through 2017.

8. Does East Kentucky intend to re-issue a notice of termination to Pioneer on January 31, 2003? If yes, file a copy of that notice. If no, explain in detail why the notice will not be re-issued on January 31, 2003.

9. East Kentucky's August 16, 2002 letter to Pioneer refers to the authorization of East Kentucky's Board of Directors to issue a notice of termination. Provide a copy of the board minutes discussing and approving that action.

10. Did East Kentucky's Board authorize the September 13, 2002 withdrawal of the notice of termination? If yes, provide a copy of the minutes of the Board meeting authorizing the withdrawal.

11. Does East Kentucky still have an enforceable contract to sell 100 MW from Pioneer to Wabash Valley Power? If yes, provide a copy of the contract and describe the terms and conditions under which each party can cancel or terminate the contract.

12. The Pioneer project was expected to receive a grant of $78 million under a DOE Clean Coal Technology Cost Sharing Agreement. The grant included $18 million for a fuel cell demonstration and $60 million for a gasification demonstration. Provide a discussion of:

a. Known changes, if any, in the amount of this grant; and

b. The potential for future changes in the amount of the grant due to delays in the Pioneer project achieving financial closure or commercial operation.

13. Refer to East Kentucky's September 13, 2002 letter to Pioneer, page 2. Provide copies of the "technical assessment recently performed" for East Kentucky.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2003-00030
INFORMATION REQUEST RESPONSE

COMMISSION STAFF'S REQUEST DATED 1/30/03
REQUEST 1
RESPONSIBLE PARTY: **James Shipp**

REQUEST 1. What is the present estimated total cost for the Gilbert unit?

RESPONSE 1. The total estimated cost of the Gilbert Unit is $367 million.

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2003-00030
INFORMATION REQUEST RESPONSE

COMMISSION STAFF'S REQUEST DATED 1/30/03
REQUEST 2
RESPONSIBLE PARTY: James Shipp

REQUEST 2. How much of the total estimated cost of the Gilbert unit has been incurred to date?

RESPONSE 2. EKPC has incurred approximately $120 million of the cost of the Gilbert Unit through February 2003. This includes invoices EKPC has paid or is committed to pay.

3

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2003-00030
INFORMATION REQUEST RESPONSE

COMMISSION STAFF'S REQUEST DATED 1/30/03
REQUEST 3
RESPONSIBLE PARTY: David Drake

REQUEST 3. Assuming that the Pioneer project is able to achieve financing by January 31, 2003 or shortly thereafter, is East Kentucky aware of any information that would indicate that Pioneer will be unable to supply power at the price set forth in the Purchase Power Agreement approved in Case No. 2000-00079? If so, provide such information, together with all supporting documents.

RESPONSE 3. While KPE and EKPC, for a period of time, discussed alternative approaches to the project, with different fuel mixes and higher prices for power, KPE has not formally notified EKPC that it would be unable to meet the contract price. It is the position of EKPC that successful compliance with the financial closure provisions of the Power Purchase Agreement by KPE can only make the existing terms and pricing enforceable on the parties, and that any other arrangements would require a contract amendment agreeable to EKPC, which would be subject to Commission approval.

4

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2003-00030
INFORMATION REQUEST RESPONSE

COMMISSION STAFF'S REQUEST DATED 1/30/03
REQUEST 4
RESPONSIBLE PARTY: Frank Oliva

REQUEST 4. Provide a cost analysis of cancelling Gilbert by February 28, 2003, and relying upon the Pioneer project supplemented by combustion turbines as necessary.

RESPONSE 4. EKPC has not conducted a detailed, updated analysis to compare the costs of cancellation of the Gilbert Unit and reliance on the KPE Project and combustion turbines, as the Commission directed in its order in PSC Case No. 2001-053 dated September 26, 2001, due to the fact that KPE has not been able to achieve financial closure. EKPC is not currently including the KPE Project in its power supply planning, due to the continuing uncertainty about the future of the project. However, EKPC has examined the various analyses submitted in PSC Case No. 2001-053, and believes that a comparison of two of those cases will provide a reasonable approximation of the relevant costs, given the current construction status of the Gilbert Unit.

In PSC Case No. 2001-053, EKPC submitted a case run designated Case AGd in response to the Attorney General's Request AG3-2a, dated June 24, 2001, in which it is assumed that the KPE plant is operational in 2005, the Gilbert Unit is cancelled, and additional capacity needs are supplemented by three new combustion turbines. Case AGd assumes 270 MW of KPE is sold off system, and 270 MW is retained for supplying member system loads. EKPC's Case 2, filed as an attachment (Table D 1-2-1) to the Supplemental Prepared Testimony of Ronald D. Brown, Exhibit II to EKPC's Amended Application in PSC Case No. 2001-053, dated July 11, 2001, assumes the Gilbert Unit is built, the KPE plant is cancelled, and additional capacity needs are supplemented by combustion turbines. Cases AGd and Case 2 are comparable cases that both assume approximately the same amount of baseload capacity is used for supplying member system loads and both assume that three new combustion turbines are added. The present value of EKPC revenue requirements from members is shown below for these two cases.

Case 2	$4,647,326,000
Case AGd	$4,497,968,000

The savings of case AGd compared to Case 2 is $149.4 million.

The cancellation costs for the Gilbert Unit, as of the end of February 2003, are approximately $149 million. This amount includes approximately $120 million in invoices that EKPC has already paid or is committed to pay. Expenditures for the project are accruing at a rate of approximately $10 million or more each month. The cancellation cost at this time represents approximately 41% of the estimated $367 million cost of the Gilbert Unit.

With the February 2003, cancellation cost of the Gilbert Unit at approximately $149 million, the savings to EKPC's member systems from Case AGd of $149.4 million is reduced to approximately $400,000. If the KPE plant cannot be operational in the spring of 2005, as KPE now indicates, and is delayed by only one year, a significant amount of replacement power would need to be purchased. If 2,000,000 MWh (approximate annual generation of Gilbert Unit) of replacement power were purchased, the replacement power cost is estimated to be $60 million ($30/MWh x 2,000,000 MWh) and would far exceed the small savings calculated for Case AGd. The cancellation costs accruing beyond February 2003 would further impact any savings involving a Gilbert Unit cancellation scenario.

5

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2003-00030
INFORMATION REQUEST RESPONSE

COMMISSION STAFF'S REQUEST DATED 1/30/03
REQUEST 5
RESPONSIBLE PARTY: Mary Jane Warner

REQUEST 5. Explain in detail the current status of the transmission facilities needed to integrate the Gilbert unit into East Kentucky's system.

RESPONSE 5. Major transmission facilities for this unit, as currently envisioned, are indicated below, with their respective status:

Cranston – Rowan 138kV Single Circuit line w/associated terminal upgrades

The route for this line is currently under development and involves a Special Use Permit for areas in the Daniel Boone National Forest. Survey and design for the line are partially developed. Design and equipment procurement for the substation modifications has not yet begun.

Spurlock 345 kV Switchyard circuit addition with associated equipment and protection system upgrade

The design for this project is 95% complete and the preparation of equipment purchase orders is 95% complete (i.e. ready for bid).

Stuart - Spurlock – Zimmer 345kV Double Circuit line w/terminal upgrades at Stuart and Zimmer

The execution of an Interconnection Agreement between EKPC and CCD Companies is anticipated in March 2003. The aerial survey is complete and design is 50% complete. The application process has commenced with the Ohio Power Siting Board, and some right of way contacts have been initiated. Outage windows for construction of the interconnection have been or are being secured. Likewise, the design outline for a protection scheme is complete and substation, protection & metering design and coordination has commenced.

The following projects are under study with LGEE to refine the final transmission plan related to the addition of Gilbert #3.

Smith – Spencer Road 138kV single circuit line and associated substation upgrades
Inland "T" line and breaker to the KU Kenton – AEP Hillsboro 138kV line
KU Kenton – KU Goddard 138kV line reconductor
Avon – Louden 138kV reconductor (Note: This project was added as a result of subsequent study activity with LGEE.)

6

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2003-00030
INFORMATION REQUEST RESPONSE

COMMISSION STAFF'S REQUEST DATED 1/30/03
REQUEST 6
RESPONSIBLE PARTY: **Mary Jane Warner**

REQUEST 6. For each major component of the Gilbert transmission facilities, state the most recent estimated cost and provide a timeline for construction.

RESPONSE 6. Cost estimates below are based on our best information to date. The target project construction periods are listed.

Cranston – Rowan 138kV Single Circuit line w/associated terminal upgrades
$4.5 million Fall/Winter 2003

Spurlock 345 kV Switchyard circuit addition with associated equipment and protection system upgrade
$8.3 million Summer/Fall 2003

Spurlock – Stuart/Zimmer 345kV Double Circuit line w/ terminal upgrades at Stuart and Zimmer
$9.1 million Fall 2003, Spring 2004, Fall 2004
(The construction dates for this project will be influenced by the allowable outage windows for the Stuart – Zimmer 345kV line, operated by MISO.)

Smith – Spencer Road 138kV single circuit line and associated substation upgrades

$7.3 million	Yet to be determined

Inland "T" line and breaker to the KU Kenton – AEP Hillsboro 138kV line

$0.7 million	Yet to be determined

KU Kenton – KU Goddard 138kV line reconductor w/Goddard bkr. upgrade

$5.6 million	Yet to be determined

Avon – Louden 138kV reconductor

$7.9 million	Yet to be determined

7

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2003-00030
INFORMATION REQUEST RESPONSE

COMMISSION STAFF'S REQUEST DATED 1/30/03
REQUEST 7
RESPONSIBLE PARTY: **Frank Oliva**

REQUEST 7. Assuming that the Gilbert unit and the Pioneer project are both operational by mid-2006, provide a schedule showing the amount of excess base load capacity that East Kentucky will have to sell off-system in 2007 and in each year thereafter through 2017.

RESPONSE 7. Assuming that the Gilbert Unit and the KPE plant were both operational by mid-2006, EKPC would have a significant amount of baseload capacity to sell off-system. The following table shows the estimated amount of capacity that EKPC would sell off-system from 2007 through 2017. These amounts are based on the updated expansion plan that EKPC plans to file as part of its Integrated Resource Plan (IRP) with the PSC in April 2003. The amount of baseload capacity that is feasible to be sold and the duration and price of any such sale will be dependent upon power market conditions at the time of such sale.

EKPC Estimated Excess Baseload Capacity											
Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Excess Baseload	500	400	400	300	300	200	150	100	50	0	0

The IRP expansion plan includes another baseload unit expected to be similar to the Gilbert Unit coming into operation in 2011. If KPE and Gilbert are both operational, it was assumed the baseload unit in 2011 would be cancelled and KPE capacity utilized instead.

The amounts of excess baseload capacity shown above are indicative amounts and EKPC would enlist the services of ACES Power Marketing to jointly develop a comprehensive marketing plan for the excess capacity should the Gilbert Unit and the KPE plant both become operational. Note that these amounts would include the sale of 100 MW to Wabash Valley Power, should that sale be completed.

8

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2003-00030
INFORMATION REQUEST RESPONSE

COMMISSION STAFF'S REQUEST DATED 1/30/03

REQUEST 8

RESPONSIBLE PARTY: **David Drake**

REQUEST 8. Does East Kentucky intend to re-issue a notice of termination to Pioneer on January 31, 2003? If yes, file a copy of that notice. If no, explain in detail why the notice will not be re-issued on January 31, 2003.

RESPONSE 8. EKPC has notified KPE that it would not re-issue a notice of termination on January 31, 2003, due to the pendancy of Case No. 2002-000312 before the Kentucky State Board for Electric Generation and Transmission Siting. This notice was filed with the Commission.

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EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2003-00030
INFORMATION REQUEST RESPONSE

COMMISSION STAFF'S REQUEST DATED 1/30/03

REQUEST 9

RESPONSIBLE PARTY: **David Drake**

REQUEST 9. East Kentucky's August 16, 2002 letter to Pioneer refers to the authorization of East Kentucky's Board of Directors to issue a notice of termination. Provide a copy of the board minutes discussing and approving that action.

RESPONSE 9. The EKPC Board of Directors resolution dated August 13, 2002, authorizing the issuance of a notice of termination to KPE, is attached hereto.

FROM THE MINUTE BOOK OF PROCEEDINGS OF THE BOARD OF DIRECTORS OF EAST KENTUCKY POWER COOPERATIVE, INC.

At a regular meeting of the Board of Directors of East Kentucky Power Cooperative, Inc. held at the Headquarters Building, 4775 Lexington Road, located in Winchester, Kentucky, on Tuesday, August 13, 2002, at 9:30 a. m., EDT, the following business was transacted:

After review and discussion of the applicable information, a motion was made by A. L. Rosenberger, seconded by Sam Penn, and, there being no further discussion, passed to approve the following:

Whereas, East Kentucky Power Cooperative (EKPC) and Kentucky Pioneer Energy (KPE) executed power purchase and site lease agreements in January 1999 which obligated KPE to construct and operate an integrated gasification combined cycle power plant at the J. K. Smith and further obligated EKPC to purchase the power from said facility;

Whereas, The Power Purchase Agreement, as subsequently amended, required KPE to obtain financial closure by June 30, 2001;

Whereas, KPE did not obtain financial closure by June 30, 2001, and has not been able to do so to date;

Whereas, EKPC has employed a consultant to evaluate the state of development of the gasification technology, using coal and refuse derived fuel, that is to be applied by the project;

Whereas, The consultant has concluded that additional development work is required to enable the technology to be applied in the manner envisioned by the project;

Whereas, Management and the Fuel and Power Supply Committee have concluded that the continuing uncertainty surrounding this project makes it imprudent at this time to rely on it in future resource expansion plans; and

Whereas, Management and the Fuel and Power Supply Committee recommend that the Board of Directors authorize termination of the Power Purchase Agreement with KPE; now, therefore be it

Resolved, That the Board hereby authorizes the President and Chief Executive Officer to issue a project termination notice to KPE as provided in section 9.4 of the Power Purchase Agreement executed on January 14, 1999, and amended on each of the following dates: September 28, 1999, July 26, 2000, and September 28, 2000; and

Resolved, That EKPC continue to explore and utilize newer techniques to produce electricity from coal.

The foregoing is a true and exact copy of a resolution passed at a meeting called pursuant to proper notice at which a quorum was present and which now appears in the Minute Book of Proceedings of the Board of Directors of the Cooperative, and said resolution has not been rescinded or modified.

Witness my hand and seal this 13th day of August, 2002.

Bobby Sexton

Bobby Sexton, Secretary

Corporate Seal

10

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2003-00030
INFORMATION REQUEST RESPONSE

COMMISSION STAFF'S REQUEST DATED 1/30/03
REQUEST 10
RESPONSIBLE PARTY: David Drake

REQUEST 10. Did East Kentucky's Board authorize the September 13, 2002 withdrawal of the notice of termination? If yes, provide a copy of the minutes of the Board meeting authorizing the withdrawal.

RESPONSE 10. The EKPC Board of Directors was advised of the plan to issue the September 13, 2002, letter to KPE withdrawing the notice of termination until January 31, 2003, so that KPE could file for approval of the project with the Kentucky State Board for Electric Generation and Transmission Siting, but the Board did not take any action in regard to that withdrawal.

11

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2003-00030
INFORMATION REQUEST RESPONSE

COMMISSION STAFF'S REQUEST DATED 1/30/03
REQUEST 11
RESPONSIBLE PARTY: Ronald D. Brown

REQUEST 11. Does East Kentucky Power still have an enforceable contract to sell 100 MW from Pioneer to Wabash Valley Power? If yes, provide a copy of the contract and describe the terms and conditions under which each party can cancel or terminate the contract.

RESPONSE 11. East Kentucky Power Cooperative (EKPC) entered into a Letter of Agreement (Agreement) with Wabash Valley Power Association (WVPA) dated December 13, 2000 (attached). This provides for the sale of 100 MW of capacity and energy from the Kentucky Pioneer Energy (KPE) project for a 10.5-year period commencing with the commercial operation of the project. This Agreement is still in effect at this time.

Termination provisions in the Agreement are as follows:

8. ***Contingencies*** *– (a) This Service Schedule is subject to any necessary approval of the Rural Utilities Service, any other regulatory agencies with jurisdiction, and any other lenders to EKPC or WVPA.*

(b) This transaction shall terminate automatically if the KPE Project does not commence Commercial Operation on or before March 31, 2005. Either Party

may terminate this transaction, upon ninety (90) days written notice to the other Party, if KPE does not obtain all necessary financing for its project by June 30, 2001, or the KPE Project has not achieved Commercial Operation of the project by March 31, 2004.

9. ***KPE Default*** *– EKPC's obligations hereunder are subject to, and shall be suspended by, any force majeure events affecting KPE or any default by KPE in its obligations under the EKPC/KPE Power Purchase Agreement. All obligations of EKPC hereunder shall cease, and this transaction shall automatically terminate if KPE is declared in default of its obligations and said Agreement is terminated. In the event KPE is declared in default and is able to cure the default; EKPC's obligations to WVPA hereunder shall resume immediately upon cure of the default and the resumption of deliveries of power from KPE to EKPC.*

11. ***Amendment of EKPC/KPE Power Purchase Agreement****. The parties recognize that the terms and conditions of the EKPC/KPE Power Purchase Agreement may be subject to further negotiation or modification. In the event there is a material modification to the terms and conditions of such agreement which make the pricing, guaranteed energy and operational terms of this agreement inequitable to either Party, then both Parties agree to negotiate in good faith to resolve any such inequity which my be imposed upon either Party as a result of such modifications to the Power Purchase Agreement. If the Parties are unable to agree to changes to this Agreement to resolve such inequity, then either Party shall have the option to terminate this Agreement after thirty (30) days advance notice to the other Party.*

The only available basis for termination, at this time, is pursuant to Section 8(b). Since KPE missed its June 30, 2001 financial closure date, either Party could, at any time, give notice to terminate the Agreement in 90 days. Neither party has yet elected to give such notice.

EAST KENTUCKY POWER COOPERATIVE

December 13, 2000

Mr. Rick D. Coons
Senior Vice President
Wabash Valley Power Association, Inc.
P.O. Box 24700
Indianapolis, Indiana 46244

Subject: East Kentucky Power Cooperative, Inc. and
Wabash Valley Power Association
New Service Schedule Letter of Agreement
KPE Unit Capacity and Energy

Dear Mr. Coons:

This letter will confirm the understanding between representatives of East Kentucky Power Cooperative, Inc. ("EKPC"), and Wabash Valley Power Association. Inc. ("WVPA") for the sale by EKPC and purchase by WVPA of up to 100 MW of unit capacity and associated energy from the Kentucky Pioneer Energy Project ("KPE Project"), as provided below (Transaction Terms), as a Letter of Agreement for a new Service Schedule (KPE Unit Capacity and Energy) under the provisions of, and subject to, the terms and conditions of our Interchange Agreement, dated January 10, 1994; provided, however, that in the event the parties enter into a Master Power Purchase and Sale Agreement pursuant to the form recommended by Edison Electric Institute (EEI) then the parties agree that the EEI agreement shall be controlling and this letter agreement shall supplement and represent a confirmation of a transaction between the parties pursuant to such agreement, as supplemented and amended. This Letter of Agreement shall take precedence over the standard EEI agreement in the event of a dispute.

Accordingly, the Parties agree as follows:

1. **Power Purchase and Sale** – a) EKPC agrees to sell and WVPA agrees to purchase 20% of the actual output, up to a maximum of 100 MW ("Purchased Capacity Amount"), of unit capacity and associated energy from the Kentucky Pioneer Energy, L.L.C. ("KPE") integrated gasification combined cycle ("IGCC") generation project to be constructed at the EKPC's J.K. Smith Station site.

on the terms provided herein, (b) additionally EKPC agrees to provide WVPA backup power as described in Section 6, and (c) WVPA agrees to provide to EKPC backup power as described in Section 6.

2. **Term** – The term of this sale shall commence on the Commercial Operation date of the KPE Project and shall extend for a period of ten and one half (10 1/2) years from said date. Commercial Operation shall mean the period commencing at 12:01 a.m. on the day specified by KPE in a written notice to EKPC as the day following the trial operation period on which KPE shall begin Commercial Operation of the facility, which notice will be at least five (5) days prior to such first day of Commercial Operation. At the end of the initial term, WVPA shall have the option to extend the purchase of 10% of the actual KPE Project output, up to a maximum of 50 MW of capacity and associated energy, for an additional nine and one half (9 1/2) year term, subject to 90 days written notice, on the same terms and conditions as the initial term, except that the Contract Energy Price and Demand Charge will be renegotiated in good faith by the Parties, and at the end of the initial term the provisions for backup power set forth in Section 6 shall terminate. All such changes will be evidenced by an amendment to this Letter of Agreement.

3. **Delivery** – EKPC will deliver and WVPA will accept the Purchased Capacity Amount of unit capacity and associated energy at the applicable Delivery Point at all times that the KPE Project is delivering capacity and energy to EKPC. If the KPE Project is not operating, then EKPC shall be obligated to supply Unit Backup power as defined in Section 6, herein. This transaction does not include any ancillary services.

4. **Delivery Point** - (a) The designated Delivery Point for this transaction shall be, at WVPA's option, the EKPC transmission interface with Cinergy or American Electric Power ("AEP"), provided however, that Midwest ISO rules and policies shall govern the Delivery Point, if and when, EKPC becomes a member of the Midwest ISO in the future. WVPA may, from time to time, by mutual agreement with EKPC modify the Delivery Point for this transaction on a daily basis. WVPA shall notify EKPC of its initial choice of Delivery Point 90 days before the expected KPE Project Commercial Operation date, and may thereafter change its option of Delivery Point, no more than two(2) times in any calendar year, after a minimum of six months advance notice to EKPC, subject to the availability of the optional Delivery Point. EKPC shall provide WVPA with the expected KPE

Project Commercial Operation date, as soon as it is known and established by KPE. EKPC shall be responsible for arranging and scheduling firm transmission service to the Delivery Point, and WVPA shall be responsible for arranging and scheduling firm transmission service to receive the power at the Delivery Point.

If EKPC fails to deliver power to the delivery point due to loss or curtailment of firm transmission, EKPC will cooperate with WVPA to deliver such power to an alternate delivery point. If EKPC is still unable to deliver, WVPA will not be required to purchase such energy, and EKPC shall have no liability for its inability to deliver.

(b) In the event EKPC should become a member of the Midwest ISO and WVPA elects the option of delivery to AEP, then WVPA will be responsible for the additional wheeling cost to EKPC, if any, as a result of wheeling to AEP.

(c) All references to times contained herein shall mean Eastern Standard Time ("EST").

5. **KPE Minimum Guaranteed Energy** – EKPC's Power Purchase Agreement with KPE includes a provision for Annual Minimum Guaranteed Energy equal to 85% of contract capacity over 8760 hours, and a Quarterly Minimum Guaranteed Energy provision for the Winter (December, January and February) and Summer (June, July and August) Seasons equal to 85% of contract capacity over 2190 hours per quarter, after the first eighteen (18) months of Commercial Operation of the KPE Project. These Guarantees do not apply during the first six (6) months of Commercial Operation of the KPE Project, and the Guarantee percentage is 75% for months seven (7) through eighteen (18) of Commercial Operation. EKPC agrees to enforce provisions of the KPE/ EKPC Power Purchase Agreement, which pertain to liquidated damages for these Guarantees and to the extent that EKPC receives compensation or credit from KPE for any failures to meet its Minimum Guaranteed Energy Obligations, EKPC shall credit WVPA bills for a proportionate share of such compensation, adjusted for (1) any capacity and energy delivered by EKPC to WVPA for backup of the KPE Project and (2) any capacity and energy received by EKPC due to reduced purchases by WVPA for backup of Spurlock 2, all pursuant to Section 6 herein below.

6. **Unit Backup** – Commencing in the seventh (7^{th}) month after the start of Commercial Operation of the KPE Project, the Parties agree to provide backup capacity and energy to each other for forced, planned and unplanned maintenance

outages of KPE and Spurlock Unit No. 2 ("Spurlock 2"), respectively. Such backup power arrangements shall not apply to an event of default by KPE. The backup power provisions for the parties shall be as follows:

(a) If requested by WVPA, EKPC shall backup from its system generating resources, shortfalls in KPE deliveries to WVPA in any hour that its Spurlock 2 is operational. This effort is subject to the following conditions:

(i) Backup requirements are conditional upon the KPE Project not operating;

(ii) EKPC's backup shall in no case exceed 50 MW;

(iii) All capacity and energy delivered on a backup basis by EKPC shall be billed at the rates provided in Section 7 herein below;

(iv) If Spurlock 2 is derated below 500 MW at any time, EKPC's backup requirement is limited to 10% of the actual capacity output of Spurlock 2 as indicated in Exhibit " A", determined on an hour by hour basis.

(b) EKPC will guarantee a portion of KPE's delivery during the Summer Season by giving WVPA credit for any failure of KPE to deliver, as defined herein, lasting more than two (2) hours during the 16 on peak hours (defined as Monday through Friday from 6:00 a.m. to 10:00 p.m., excluding Independence Day), or the Parties may agree to make up such shortfall at some later date. If the KPE Project is operating, the billing credit will be equal to [redacted]-day multiplied by one half of the difference between 100 MW and the actual capacity received, up to a maximum of 50 MW (See Exhibit "B" for an example of this calculation). If the KPE Project is not operating, the billing credit will be equal to [redacted]-day times 50 MW. In addition to (a) above, EKPC shall have the option of delivering the shortfall as described above, or applying the billing credit. Billing credits shall not apply to delivery shortfalls that cause KPE to fail to meet its minimum energy guarantee and for which WVPA receives credit, as described in Section 5, hereinabove.

(c) If requested by EKPC, WVPA shall reduce its purchases of KPE capacity and energy by up to 50 MW for any hour that Spurlock 2 is not operating, subject to the following conditions:

(i) If Spurlock 2 is not operational, WVPA agrees to reduce its available KPE purchase by half to make the remaining capacity and energy available to EKPC until Spurlock 2 is returned to service, as indicated in Exhibit "A".

(d) A Party will provide backup power to another Party within 60 minutes of a request for backup from such Party.

(e) The commitment to provide backup power or reduced purchases as set forth above shall however, be limited as follows:

(i) For scheduled maintenance outages, backup power or reduced purchases for each Party shall be limited to 672 hours per contract year;

(ii) For unplanned and forced outages, backup power or reduced purchases for each Party shall be limited to 168 hours per incident; provided however, that backup power or reduced purchases for each Party for unplanned outages and forces outages shall be further limited to a maximum of 504 hours per contract year;

(iii) Contract year shall be defined as successive 12-month periods commencing with the seventh (7th) month following commercial operation of the KPE project.

7. <u>Pricing</u> – (a) WVPA shall pay EKPC a Contract Price for the Purchased Capacity Amount and associated energy at the following Energy Price and Demand Charge.

(b) The Energy Price shall track EKPC's actual cost of energy from the KPE Project, and shall consist of two components (See Exhibit "C" for an example of this calculation):

(i) Effective six (6) months after the start of Commercial Operation of the KPE Project, an Energy Price for energy generated from synthetic gas produced by the KPE Project gasifier equal to [redacted] mills/kWh delivered to the Delivery Point (including transmission losses). 28.5 % of the Energy Price will escalate annually according to the DRI Total Operation and Maintenance Index. Due to the uncertainty of operation during the first six (6) months after the start of Commercial Operation of the KPE Project, WVPA shall be billed for energy at a rate of 112% of the Energy Price herein for peak energy delivered Monday through Friday between the hours of 6 a.m. and 10 p.m. EST and a rate of 90 % of Energy Price for energy delivered at all other times.

(ii) Effective at the start of Commercial Operation of the KPE Project up to 5.882% of the annual total energy may be generated by the KPE Project using natural gas as a fuel. Energy generated by natural gas shall be priced at the actual fuel cost and heat rate plus 2.5% for transmission losses. The estimated heat rate of the KPE combined cycle unit is [redacted] Btu/kWh or less

(iii) The Energy Price shall be adjusted to pass through any adjustment in EKPC's cost of energy from the KPE Project pursuant to the adjustment for Changes in Law amounting to force majeure events in the EKPC/KPE Power Purchase Agreement, or costs relating to KPE Project operation on a Service Contingency basis, if requested by EKPC with the concurrence of WVPA, pursuant to that Agreement. Such changes in energy price due to Changes in Law shall be restricted to changes no greater than provided for in the EKPC/KPE Power Purchase Agreement. Changes in Law means (a) the order and/or judgement of any federal, state or local court, administrative agency or other governmental officer or body, (b) the failure to obtain, or suspension or termination, interruption, or failure of renewal, or addition of any material conditions or requirements to, any permit, license, consent, authorization or approval essential to the acquisition, design, construction, equipping, startup, operation, ownership or possession of the Facility or (c) the adoption, promulgation, issuance, material modification of change in interpretation of any federal, state or local law, regulation, mode, requirement or ordinance.

(c) The Demand Charge shall be [redacted]W-month, beginning with the seventh (7th) month after the KPE project Commercial Operation Date and calculated monthly based on the peak delivery for that month. This shall escalate on an annual basis in increments of [redacted]W-month for each of the subsequent nine (9) years of the initial term of the power sale.

(d) The Contract Price includes, and EKPC shall be responsible for, any taxes related to the sale of capacity and energy hereunder, and any other tax imposed prior to the Delivery Point. WVPA shall be responsible for any taxes imposed beyond the Delivery Point.

8. **Contingencies** – (a) This Service Schedule is subject to any necessary approval of the Rural Utilities Service, any other regulatory agencies with jurisdiction, and any other lenders to EKPC or WVPA.

(b) This transaction shall terminate automatically if the KPE Project does not commence Commercial Operation on or before March 31, 2005. Either Party may terminate this transaction, upon ninety (90) days written notice to the other Party, if KPE does not obtain all necessary financing for its project by June 30, 2001, or the KPE Project has not achieved Commercial Operation of the project by March 31, 2004.

9. **KPE Default** – EKPC's obligations hereunder are subject to, and shall be suspended by any default by KPE in its obligations under the EKPC/KPE Power Purchase Agreement. All obligations of EKPC hereunder shall cease, and this transaction shall automatically terminate if KPE is declared in default of its obligations and said Agreement is terminated. Should EKPC obtain rights to purchase the output of the KPE Project following such termination, on terms comparable to the Power Purchase Agreement, the Parties agree to negotiate in good faith to attempt to reinstate the transactions provided for herein. In the event KPE is declared in default and is able to cure the default, EKPC's obligations to WVPA hereunder shall resume immediately upon cure of the default and the resumption of deliveries of power from KPE to EKPC. EKPC's obligations hereunder shall also be subject to any force majeure events affecting KPE.

10. **Scheduled Outages** – EKPC shall attempt to coordinate any scheduled maintenance outages of Spurlock 2 so as to minimize the impact on WVPA's power supply needs. EKPC will notify WVPA of any maintenance outages

Mr. Rick D. Coons
Senior Vice President
Wabash Valley Power Association, Inc.
December 13, 2000
Page 8 of 8

scheduled by KPE and will request that KPE also coordinate such outages to minimize disruptions.

11. **Amendment of EKPC/KPE Power Purchase Agreement**. The parties recognize that the terms and conditions of the EKPC/KPE Power Purchase Agreement may be subject to further negotiation or modification. In the event there is a material modification to the terms and conditions of such agreement which make the pricing, guaranteed energy and operational terms of this agreement inequitable to either Party, then both Parties agree to negotiate in good faith to resolve any such inequity which may be imposed upon either Party as a result of such modifications to the Power Purchase Agreement. If the Parties are unable to agree to changes to this Agreement to resolve such inequity, then either Party shall have the option to terminate this Agreement after thirty (30) days advance notice to the other Party.

Please confirm that the terms stated herein accurately reflect the agreement reached on Dec 13, 2000 between EKPC and WVPA, by returning an executed copy of this letter.

Sincerely,

EAST KENTUCKY POWER COOPERATIVE, INC.

By Ronald D. Brown
Ronald D. Brown
Vice President, Planning and Technology

ACCEPTED BY:

WABASH VALLEY POWER ASSOCIATION, INC.

By Richard P. Marts

WVPARev1213

Exhibit "A"

Alternate 111700-a

Scheduled Deliveries of Power to WVPA (MW) Based on Output/Capability of KPE and Spurlock 2, Net of Backup Schedules *

KPE \ SP 2 =>	500	450	400	350	300	250	200	150	100	50	0
500	100	100	100	100	100	100	100	100	100	100	50
450	90	90	90	90	90	90	90	90	90	90	45
400	80	80	80	80	80	80	80	80	80	80	40
350	70	70	70	70	70	70	70	70	70	70	35
300	60	60	60	60	60	60	60	60	60	60	30
250	50	50	50	50	50	50	50	50	50	50	25
200	40	40	40	40	40	40	40	40	40	40	20
150	30	30	30	30	30	30	30	30	30	30	15
100	20	20	20	20	20	20	20	20	20	20	10
50	10	10	10	10	10	10	10	10	10	10	5
0	50	45	40	35	30	25	20	15	10	5	0

Notes:

- * Backup is available to a party when its "unit" is not in operation. The amount of backup obligation is proportional to the supplying party's "unit."

Exhibit "B"

Delivery Shortfalls (MW) Which May Be Subject to Demand Charge Refund by EKPC to WVPA

KPE Output	
500	0
450	5
400	10
350	15
300	20
250	25
200	30
150	35
100	40
50	45
0	50

Notes:

For Example, if during the Summer months, KPE is operating at 300 MW's for more than 2 peak hours, the billing credit for failure to provide backup shall be calculated as follows:

[redacted]day x [100 MW-(300MW x 0.20)] / 2 = [redacted]ay billing credit

Exhibit "C"

Estimated Cost Example

Syngas Energy Price	28.5%				Natural Gas Energy Price							Est. Total Weighted Energy Price* $/MWh
Com Oper Year	DRI Esc. Rate	Escalatable Amount	Escalated Amount	Energy Price $/MWh	HH N G $/Mmbtu	NG Trans $/Mmbtu	Del NG $/Mmbtu	CC Energy $/MWh	Trans	Total N G Cost		
2004				[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]		[redacted]
2005	3.00%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]		[redacted]
2006	3.00%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]		[redacted]
2007	3.00%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]		[redacted]
2008	3.00%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]		[redacted]
2009	3.00%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]		[redacted]
2010	3.00%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]		[redacted]
2011	3.00%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]		[redacted]
2012	3.00%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]		[redacted]
2013	3.00%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]		[redacted]
2014	3.00%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]		[redacted]

Est. CC Heat Rate [redacted]

Note. The above figures are for demonstration purposes only and are based on an 85% capacity factor. Market conditions during the period will determine the actual DRI adjustment, natural gas cost and Total Energy Prices.
* Weighted Energy Estimated Cost includes 5.882 % of N.G.

12

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2003-00030
INFORMATION REQUEST RESPONSE

COMMISSION STAFF'S REQUEST DATED 1/30/03
REQUEST 12
RESPONSIBLE PARTY: David Drake

<u>REQUEST 12.</u> The Pioneer project was expected to receive a grant of $78 million under a DOE Clean Coal Technology Cost Sharing Agreement. The grant included $18 million for a fuel cell demonstration and $60 million for a gasification demonstration. Provide a discussion of:

<u>REQUEST 12a.</u> Known changes, if any, in the amount of this grant; and

<u>REQUEST 12b.</u> The potential for future changes in the amount of the grant due to delays in the Pioneer project achieving financial closure or commercial operation.

<u>RESPONSE 12.</u> The Kentucky Pioneer Energy project received a DOE Clean Coal Technology award of $78 million contingent upon the completion of an environmental impact statement (EIS) by the US Army Corps of Engineers and a favorable record of decision regarding the EIS. $17 million of that award was for the demonstration of a fuel cell operating on syngas and $61 million was to support IGCC power generation. In view of delays in the completion of the EIS, DOE approved moving the fuel cell demonstration to Global Energy's existing gasification facility in Terra Haute, Indiana which would allow the acceleration of the fuel cell demonstration. Such a move, however, would not affect the $61 million originally committed to IGCC power generation. The record of decision was signed January 29, 2003.

13

EAST KENTUCKY POWER COOPERATIVE, INC.
PSC CASE NO. 2003-00030
INFORMATION REQUEST RESPONSE

COMMISSION STAFF'S REQUEST DATED 1/30/03

REQUEST 13

RESPONSIBLE PARTY: **David Drake**

REQUEST 13. Refer to East Kentucky's September 13, 2002 letter to Pioneer, page 2. Provide copies of the "technical assessment recently performed" for East Kentucky.

RESPONSE 13. The technical assessment referred to in EKPC's letter to KPE dated September 13, 2002 is attached hereto.

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ENTIRE REPORT REDACTED

BGL GASIFIER DUE DILIGENCE

REPORT TO EKPC

Ari Geertsema

June 2002